

SCHEDULES

SCHEDULE 10

Section 52

AMENDMENT OF ENACTMENTS THAT OPERATE BY REFERENCE TO ACCOUNTING PRACTICE

PART 1

LOAN RELATIONSHIPS

Main computational provisions

- 1 (1) Section 84 of the Finance Act 1996 (c. 8) (debits and credits to be brought into account) is amended as follows.
 - (2) In subsection (1) omit “in accordance with an authorised accounting method and”.
 - (3) Omit subsections (2) and (4A).
 - (4) For subsection (7) substitute—

“(7) Schedule 9 to this Act contains further provisions as to the debits and credits to be brought into account for the purposes of this Chapter.”
- 2 (1) Section 84A of that Act (exchange gains and losses from loan relationships) is amended as follows.
 - (2) For subsection (3) substitute—

“(3) Subsection (1) does not apply to an exchange gain or loss of a company to the extent that it arises—

 - (a) in relation to an asset or liability representing a loan relationship of the company, or
 - (b) as a result of the translation from one currency to another of the profit or loss of part of the company’s business,

and is recognised in the company’s statement of recognised gains and losses or statement of changes in equity.
 - (3A) Subsection (1) does not apply to so much of an exchange gain or loss arising to a company in relation to an asset or liability representing a loan relationship of the company as falls within a description prescribed for the purpose in regulations made by the Treasury.”
 - (3) Omit subsections (4) to (7).
 - (4) In subsection (8) after “(3)” insert “or (3A)”.
 - (5) In subsection (10) at the end add “and power to make provision subject to an election or to other prescribed conditions”.

- 3 For sections 85 and 86 of that Act (authorised accounting methods and their application) substitute—

“85A Computation in accordance with generally accepted accounting practice

- (1) Subject to the provisions of this Chapter, the amounts to be brought into account by a company for any period for the purposes of this Chapter are those that, in accordance with generally accepted accounting practice, are recognised in determining the company’s profit or loss for the period.
- (2) If a company does not draw up accounts in accordance with generally accepted accounting practice (“correct accounts”)—
 - (a) the provisions of this Chapter apply as if correct accounts had been drawn up, and
 - (b) the amounts referred to in this Chapter as being recognised for accounting purposes are those that would have been recognised if correct accounts had been drawn up.
- (3) If a company draws up accounts that rely to any extent on amounts derived from an earlier period of account for which the company did not draw up correct accounts, the amounts referred to in this Chapter as being recognised for accounting purposes in the later period are those that would have been recognised if correct accounts had been drawn up for the earlier period.
- (4) The provisions of subsections (2) and (3) apply where the company does not draw up accounts at all as well as where it draws up accounts that are not correct.

85B Amounts recognised in determining company’s profit or loss

- (1) Any reference in this Chapter to an amount being recognised in determining a company’s profit or loss for a period is to an amount being recognised for accounting purposes—
 - (a) in the company’s profit and loss account,
 - (b) in the company’s statement of recognised gains and losses or statement of changes in equity, or
 - (c) in any other statement of items brought into account in computing the company’s profits and losses for that period.
- (2) Subsection (1) does not apply to an amount recognised for accounting purposes by way of correction of a fundamental error.
- (3) The Treasury may by regulations—
 - (a) make provision excluding from subsection (1) amounts of a prescribed description, and
 - (b) make provision for or in connection with bringing into account in prescribed circumstances amounts in relation to which subsection (1) does not have effect by virtue of regulations under paragraph (a) above.
- (4) The regulations may provide that subsection (1) does not apply to prescribed amounts in a period of account to the extent that they derive from or otherwise relate to amounts brought into account in a prescribed manner in a previous period of account.

- (5) The power to make regulations under this section includes—
- (a) power to make different provision for different cases; and
 - (b) power to make provision subject to an election or to other prescribed conditions.
- (6) The power to make regulations under this section does not apply to exchange gains or losses (but see section 84A(3A) and (8) to (10)).”.
- 4 In section 87 of that Act (accounting method where parties have a connection), for subsection (2) substitute—
- “(2) Where this section applies the debits and credits to be brought into account for the purposes of this Chapter as respects the loan relationship must be determined on an amortised cost basis of accounting.
- (2A) The provisions of subsections (2B) and (2C) apply where subsection (2) applies, or ceases to apply, with the result that there is a change of basis of accounting for a loan relationship as between one accounting period of a company and the next.
- (2B) Where for an accounting period (“the relevant period”) a company brings into account debits or credits determined in accordance with an amortised cost basis of accounting, having used a fair value basis of accounting for the immediately previous accounting period (“the previous period”)—
- (a) any amount by which the fair value of the relevant asset or liability at the end of the previous period (“A”) exceeds the cost of the asset or liability that would be given at that time on an amortised cost basis of accounting (“B”) shall be brought into account for the purposes of this Chapter as a debit (in the case of an asset) or credit (in the case of a liability) for the relevant period, and
 - (b) any amount by which B exceeds A shall be brought into account for the purposes of this Chapter as a credit (in the case of an asset) or debit (in the case of a liability) for that period.
- (2C) Where for an accounting period (“the relevant period”) a company brings into account debits or credits determined on the basis of fair value accounting, having used an amortised cost basis of accounting for the immediately previous accounting period (“the previous period”)—
- (a) any amount by which the fair value of the relevant asset or liability immediately before the relevant period (“C”) exceeds the cost of the asset or liability that would be given at that time on an amortised cost basis of accounting (“D”) shall be brought into account for the purposes of this Chapter as a credit (in the case of an asset) or debit (in the case of a liability) for the relevant period, and
 - (b) any amount by which D exceeds C shall be brought into account for the purposes of this Chapter as a debit (in the case of an asset) or credit (in the case of a liability) for that period.”.

5 In section 88 of that Act (exemption from section 87 in certain cases), omit subsection (2)(b) and subsection (3)(b).

6 (1) Section 88A of that Act (accounting method where rate of interest is reset) is amended as follows.

- (2) In subsection (4) for the words from “the only accounting method authorised” to the end substitute “the debits and credits to be brought into account for the purposes of this Chapter as respects the loan relationship must be determined on the basis of fair value accounting”.
- (3) Omit subsection (5).
- 7 Omit section 90 of that Act (changes of accounting method).
- 8 After that section insert—

“90A Change of accounting basis applicable to assets or liabilities

- (1) The Treasury may by regulations provide that where in accordance with generally accepted accounting practice assets or liabilities of a company that were previously dealt with for accounting purposes on an amortised cost basis of accounting are required to be dealt with for accounting purposes on the basis of fair value accounting, the debits or credits to be brought into account for the purposes of this Chapter shall continue be determined on an amortised cost basis of accounting.
- (2) The power to make regulations under this section includes power—
- (a) to make different provision for different cases;
 - (b) to make such consequential, supplementary, incidental or transitional provision, or savings, as appear to the Treasury to be necessary or expedient; and
 - (c) to make provision subject to an election or to other prescribed conditions.”.
- 9 (1) Omit section 92 of that Act (convertible securities etc.: creditor relationships).
- (2) Where at the relevant time a company holds an asset to which section 92 applies—
- (a) section 92(7) (deemed disposal and re-acquisition) shall have effect as if the asset had ceased at that time to be an asset to which that section applied (but without ceasing to represent a creditor relationship of the company), and
 - (b) any amount falling to be brought into account under the Taxation of Chargeable Gains Act 1992 (c. 12) shall be brought into account in accordance with section 92(4) accordingly.
- (3) The relevant time for this purpose is immediately before the end of the last period of account before that in relation to which sub-paragraph (1) has effect (see section 52(3) of this Act).
- 10 Omit section 92A of that Act (convertible securities etc.: debtor relationships).
- 11 (1) Omit sections 93, 93A and 93B of that Act (relationships linked to the value of chargeable assets).
- (2) Where at the relevant time a company holds an asset to which section 93 applies—
- (a) section 93B (deemed disposal and re-acquisition) shall have effect as if the asset had ceased at that time to be an asset to which section 93 applied (but without ceasing to represent a creditor relationship of the company), and
 - (b) any amount falling to be brought into account under the Taxation of Chargeable Gains Act 1992 (c. 12) shall be brought into account in accordance with section 93(4) accordingly.

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(3) The relevant time for this purpose is immediately before the end of the last period of account before that in relation to which sub-paragraph (1) has effect (see section 52(3) of this Act).

12 Omit section 94 of that Act (indexed gilt-edged securities).

13 After that section insert—

“94A Loan relationships with embedded derivatives

(1) This section applies where a company is permitted or required in accordance with generally accepted accounting practice to treat the rights and liabilities under a loan relationship to which it is party (whether as debtor or creditor) as divided between—

(a) rights and liabilities under a loan relationship (the “host contract”), and

(b) rights and liabilities under one or more derivative financial instruments or equity instruments (“embedded derivatives”).

(2) The company shall be treated—

(a) for the purposes of this Chapter as party to a loan relationship whose rights and liabilities consist only of the rights and liabilities of the host contract, and

(b) for the purposes of Schedule 26 to the Finance Act 2002 (derivative contracts) as—

(i) party to a relevant contract within the meaning of that Schedule whose rights and liabilities consist only of those of the embedded derivative, or

(ii) if there is more than one embedded derivative, party to relevant contracts within the meaning of that Schedule each of whose rights and liabilities consist only of those of one of the embedded derivatives.

(3) Each relevant contract to which the company is treated as party under subsection (2)(b) shall be treated for the purposes of that Schedule as an option, a future or a contract for differences according to whether the rights and liabilities of the embedded derivative would be of that character if contained in a separate contract.”.

14 In section 95 of that Act (gilt strips), in subsection (1) for the words from “has effect” to “accruals basis of accounting” substitute “applies”.

15 In section 96 of that Act (special rules for certain other gilts), omit subsection (3).

16 In section 101 of that Act (financial instruments), after subsection (1) insert—

“(1A) This section does not apply where section 94A above applies (treatment of embedded derivatives).”.

17 (1) Section 103 of that Act (interpretation) is amended as follows.

(2) In subsection (1)—

(a) omit the definition of “authorised accounting method”, “authorised accruals basis of accounting” and “authorised mark to market basis of accounting”;

(b) at the appropriate places insert—

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““amortised cost basis of accounting”, in relation to a loan relationship of a company, means a basis of accounting under which an asset or liability representing the loan relationship is shown in the company’s accounts at cost adjusted for cumulative amortisation and any impairment, repayment or release;”;

““fair value”, in relation to a loan relationship of a company, means the amount which, at the time as at which the value falls to be determined, is the amount that the company would obtain from or, as the case may be, would have to pay to an independent person for—

- (a) the transfer of all the company’s rights under the relationship in respect of amounts which at that time are not yet due and payable, and
- (b) the release of all the company’s liabilities under the relationship in respect of amounts which at that time are not yet due and payable;”;

““fair value accounting” means a basis of accounting under which assets or liabilities are shown in the company’s balance sheet at their fair value;”;

““impairment” includes uncollectability;”;

““impairment loss” means a debit in respect of the impairment of a financial asset;”;

- (c) omit the definition of “statutory accounts”.

- (3) Omit subsection (5).

Special computational provisions

- 18 Schedule 9 to the Finance Act 1996 (c. 8) (loan relationships: special computational provisions) is amended as follows.
- 19 In paragraph 3 (1) (options etc.) for “an authorised accruals basis of accounting” substitute “an amortised cost basis of accounting”.
- 20 (1) Paragraph 5 (bad debts etc.) is amended as follows.
 - (2) For the heading substitute “*Release of liability under debtor relationship*”.
 - (3) Omit sub-paragraphs (1) to (2A).
 - (4) In sub-paragraph (3)(b) for “an authorised accruals basis of accounting” substitute “an amortised cost basis of accounting”.
 - (5) In sub-paragraphs (5), (6)(b) and (c) and (7)(a) for “requires the use of an authorised accruals basis of accounting” substitute “applies”.
- 21 (1) Paragraph 5A (bad debts and consortium relief) is amended as follows.
 - (2) In the heading for “*Bad debts*” substitute “*Impairment losses*”.
 - (3) In sub-paragraph (2) for “by virtue of paragraph 5 above a debit” substitute “an impairment loss”.

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- (4) In sub-paragraphs (5)(a) and (8)(b) for “debts brought into account for that period by virtue of paragraph 5 above” substitute “impairment losses brought into account for that period”.
- (5) In sub-paragraph (9) omit “by virtue of paragraph 5(2) above”.
- (6) In sub-paragraph (14), in the closing words, for “sub-paragraph (12)” substitute “sub-paragraph (6)”.
- (7) For sub-paragraph (15)(a) substitute—
 “(a) the debtor consortium company has, in accordance with an amortised cost basis of accounting, brought into account for an accounting period an amount in respect of a release of any liability under a debtor relationship, and”.
- (8) In the closing words of sub-paragraph (15) omit “under paragraph 5(1)”.
- (9) In sub-paragraph (19), in the definition of “related debt recovery credit” for “by virtue of paragraph 5(2) above in connection with a bad debt” substitute “in connection with a debt”.
- 22 (1) Paragraph 6 (bad debts etc where parties have a connection) is amended as follows.
- (2) In the heading for “*Bad debt etc*” substitute “*Impairment losses*”.
- (3) In sub-paragraph (1) for “requires an authorised accruals basis of accounting to be used” substitute “(accounting method where parties have a connection) applies”.
- (4) In sub-paragraph (2) omit “in accordance with that accounting method”.
- (5) For sub-paragraph (3) substitute—
 “(3) An impairment loss may be brought into account for the purposes of this Chapter only in accordance with—
 (a) sub-paragraph (4) below,
 (b) paragraph 6A, or
 (c) paragraph 6B.”.
- (6) After that sub-paragraph insert—
 “(3A) Where an impairment loss is excluded by sub-paragraph (3), no credit in respect of any reversal of the impairment shall be brought into account for the purposes of this Chapter.”.
- (7) In sub-paragraph (4) for “A departure from that assumption shall be allowed” substitute “An impairment loss is not excluded by sub-paragraph (3)”.
- 23 (1) Paragraph 6A (bad debts etc.: parties having connection and creditor in insolvent liquidation etc.) is amended as follows.
- (2) In the heading for “*Bad debt etc*” substitute “*Impairment losses*”.
- (3) In sub-paragraph (2) for the words from “a departure” to “shall be allowed” substitute “an impairment loss is not excluded by paragraph 6(3)”.
- 24 (1) Paragraph 6B (bad debts etc.: companies becoming connected) is amended as follows.

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- (2) In the heading for “*Bad debt etc*” substitute “*Impairment losses*”.
- (3) In sub-paragraph (1) for the words following paragraph (b) substitute “an impairment loss is not excluded by paragraph 6(3) in the following two cases”.
- (4) In sub-paragraph (2)—
- (a) for the opening words down to “if—” substitute “The first case is where—”;
 - (b) in paragraph (a) for “a departure has been allowed under paragraph 5 (1) above” substitute “an impairment loss has been brought into account for the purposes of this Chapter”.
- (5) In sub-paragraph (3) for “A departure shall be allowed” substitute “An impairment loss may be brought into account”.
- (6) For sub-paragraph (5) substitute—
- “(5) The second case is where the following conditions are met.”.
- (7) In sub-paragraph (7) for “A departure shall be allowed” substitute “An impairment loss may be brought into account”.
- 25 (1) Paragraph 6C (bad debts etc.: cessation of connection) is amended as follows.
- (2) In the heading for “*Bad debt etc: departure not permitted by paragraph 6:*” substitute “*Impairment losses:*”.
- (3) For sub-paragraph (1)(a) substitute—
- “(a) an impairment loss is excluded by paragraph 6(3) in any accounting period, and”.
- (4) In sub-paragraph (2) omit “by virtue of paragraph 5(2) above”.
- 26 In paragraph 8 (restriction on writing off overseas sovereign debts etc.), for sub-paragraphs (1) and (2) substitute—
- “(1) This paragraph applies as respects the debits and credits to be brought into account for the purposes of this Chapter in respect of the impairment of a financial asset representing a relevant overseas debt.
- This paragraph does not apply where fair value accounting is used.
- (2) Where this paragraph applies the debits and credits to be so brought into account for any accounting period shall be determined on the basis that it is not permissible for the asset to be impaired by more than the relevant percentage.”.
- 27 (1) Paragraph 9 (further restriction on bringing into account losses on overseas sovereign debt etc.) is amended as follows.
- (2) In sub-paragraph (1) for paragraphs (a) and (b) substitute—
- “(a) an impairment loss falls to be brought into account for the purposes of this Chapter in respect of a relevant overseas debt in relation to which any of the conditions in sub-paragraph (2) is met,
 - (b) in the accounting period in which that loss falls to be so brought into account (“the loss period”) the company ceases to be a party to the loan relationship.”.

- (3) In sub-paragraph (2)—
- (a) for the opening words down to “if—” substitute “The conditions referred to in sub-paragraph (1)(a) are—”;
 - (b) in paragraph (b)—
 - (i) after “Chapter” insert “for a period of account of the company beginning before 1st January 2005”, and
 - (ii) for “paragraph 5(1)(a) to (c) above” substitute “paragraph 5(1)(a) to (c) of this Schedule as it had effect before its amendment by Schedule 10 to the Finance Act 2004”;
 - (c) omit the “or” at the end of paragraph (b);
 - (d) after that paragraph insert—
 - “(ba) an impairment loss in respect of the debt has been brought into account for the purposes of this Chapter for a period of account of the company beginning on or after 1st January 2005; or”.
- 28 In paragraph 10 (imported losses etc.), for sub-paragraph (1) substitute—
- “(1) This paragraph applies in the case of a company (“the chargeable company”) for an accounting period (“the loss period”) where—
- (a) there is a loss arising in connection with a loan relationship of the company which apart from this paragraph would fall to be brought into account for the purposes of this Chapter, and
 - (b) that loss is referable in whole or in part to a time when the relationship was not subject to United Kingdom taxation.
- This paragraph does not apply where fair value accounting is used.”.
- 29 In paragraph 10A (deemed disposal on company ceasing to be resident in UK etc.), omit sub-paragraph (5).
- 30 In paragraph 11 (transactions not at arm’s length), for sub-paragraph (1) substitute—
- “(1) Where—
- (a) debits or credits in respect of a loan relationship of a company fall to be brought into account for the purposes of this Chapter in respect of a related transaction, and
 - (b) that transaction is not a transaction at arm’s length,
- the debits or credits to be brought into account shall be determined on the assumption that the transaction was entered into on the terms on which it would have been entered into between independent persons.
- This is subject to the exceptions in sub-paragraphs (1A), (2), (3) and (3A).”.
- 31 In paragraph 12 (continuity of treatment: groups etc.), in sub-paragraph (2A)—
- (a) in the opening words for “an authorised mark to market basis of accounting” substitute “fair value accounting”;
 - (b) at the end of paragraph (a) insert “; and”; and
 - (c) omit paragraph (b) and the word “and” preceding it.
- 32 In paragraph 13 (loan relationships for unallowable purposes), in the closing words of sub-paragraph (1) omit “given by the authorised accounting method used”.

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33 (1) Paragraph 14 (debits and credits treated as relating to capital expenditure) is amended as follows.

(2) In sub-paragraph (1) omit “given by an authorised accounting method”.

(3) After sub-paragraph (3) add—

“(4) Where a debit is brought into account by a company in accordance with sub-paragraph (1), no debit shall be brought into account in respect of—

- (a) the writing down of so much of the value of the fixed capital asset or project as is attributable to that debit, or
- (b) so much of any amortisation or depreciation as represents a writing off of the interest component of the asset.”.

34 In paragraph 16 (amounts imputed under Schedule 28AA to the Taxes Act 1988), in sub-paragraph (2) omit “, notwithstanding the provisions of any authorised accounting method,”.

35 (1) Paragraph 19 (partnerships involving companies) is amended as follows.

(2) Omit sub-paragraph (10).

(3) For sub-paragraph (11) substitute—

“(11) Where the company partner uses fair value accounting in relation to its interest in the partnership, the debits and credits to be brought into account under this paragraph by that company must be determined on the basis of fair value accounting.”.

(4) In sub-paragraph (12) for the words from “carried to or sustained by a reserve” to the end substitute “recognised in the firm’s statement of recognised gains and losses or statement of changes in equity”.

36 After paragraph 19 insert—

“Adjustment on change of accounting policy

19A (1) This paragraph applies where—

- (a) there is a change of accounting policy in drawing up a company’s accounts from one period of account (the “earlier period”) to the next (the “later period”), and
- (b) the approach in each of those periods accorded with the law and practice applicable in relation to that period.

(2) This paragraph applies, in particular, where—

- (a) the company prepares accounts for the earlier period in accordance with UK generally accepted accounting practice and for the later period in accordance with international accounting standards, or
- (b) the company prepares accounts for the earlier period in accordance with international accounting standards and for the later period in accordance with UK generally accepted accounting practice.

(3) If there is a difference between—

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- (a) the accounting value of an asset or liability representing a loan relationship of the company at the end of the earlier period, and
 - (b) the accounting value of that asset or liability at the beginning of the later period,
- a corresponding debit or credit (as the case may be) shall be brought into account for the purposes of this Chapter in the later period.
- (4) In sub-paragraph (3) “accounting value” means the carrying value of the asset or liability recognised for accounting purposes.
 - (5) This paragraph does not apply if or to the extent that such a debit or credit as is mentioned in sub-paragraph (3) falls to be brought into account apart from this paragraph.
 - (6) Where or to the extent that an adjustment is made under this paragraph, no adjustment under Schedule 22 (computation of profits: adjustment on change of basis) shall be made.

Power to make further provision by regulations

- 19B (1) The Treasury may by regulations make provision for cases where there is a change of accounting policy in drawing up a company’s accounts from one period of account to the next affecting the amounts to be brought into account for accounting purposes in respect of the company’s loan relationships.
- (2) The regulations may provide for any debits or credits that would otherwise be brought into account for the purposes of this Chapter—
 - (a) not to be brought into account,
 - (b) to be brought into account only to a prescribed extent, or
 - (c) to be brought into account over a prescribed period or in prescribed circumstances.
 - (3) Regulations under this paragraph may, in particular, modify the operation of paragraph 19A.
 - (4) The power to make regulations under this paragraph includes power—
 - (a) to make different provision for different cases, and
 - (b) to make such consequential, supplementary, incidental or transitional provision, or savings, as appear to the Treasury to be necessary or expedient.”.

Collective investment schemes etc.

- 37 Schedule 10 to the Finance Act 1996 (c. 8) (loan relationships: collective investment schemes) is amended as follows.
- 38 For paragraph 1A (investment trusts and venture capital trusts: capital reserves) substitute—

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“Investment trusts: capital profits, gains or losses

- 1A (1) Capital profits, gains or losses arising to an investment trust from a creditor relationship must not be brought into account as credits or debits for the purposes of this Chapter.
- (2) For the purposes of this paragraph “capital profits, gains or losses”—
- (a) in the case of an investment trust that prepares accounts in accordance with UK generally accepted accounting practice, has the meaning given by sub-paragraphs (3) and (4), and
 - (b) in the case of an investment trust that prepares accounts in accordance with international accounting standards, has the meaning given by order made by the Treasury.
- (3) In the cases mentioned in sub-paragraph (2)(a) capital profits, gains or losses arising from a creditor relationship in an accounting period are profits, gains or losses that are carried to or sustained by a capital reserve in accordance with the Statement of Recommended Practice.
- (4) For the purposes of this paragraph the Statement of Recommended Practice is, for an accounting period for which it is required or permitted to be used—
- (a) the Statement of Recommended Practice relating to Investment Trust Companies, issued by the Association of Investment Trust Companies in January 2003, as from time to time modified, amended or revised, or
 - (b) any subsequent Statement of Recommended Practice relating to investment trusts, as from time to time modified, amended or revised.

Venture capital trusts: capital profits, gains or losses

- 1B (1) Capital profits, gains or losses arising to a venture capital trust from a creditor relationship must not be brought into account as credits or debits for the purposes of this Chapter.
- (2) For the purposes of this paragraph “capital profits, gains or losses”—
- (a) in the case of a venture capital trust that prepares accounts in accordance with UK generally accepted accounting practice, has the meaning given by sub-paragraphs (3) and (4), and
 - (b) in the case of a venture capital trust that prepares accounts in accordance with international accounting standards, has the meaning given by order made by the Treasury.
- (3) In the cases mentioned in sub-paragraph (2)(a) capital profits, gains or losses arising from a creditor relationship in an accounting period are profits, gains or losses that—
- (a) are carried to or sustained by a capital reserve in accordance with the Statement of Recommended Practice as if the venture capital trust were an investment trust, or

- (b) would be so carried to or sustained by a capital reserve if the venture capital trust were an investment trust and were using the Statement of Recommended Practice.
- (4) For the purposes of this paragraph the Statement of Recommended Practice is, in relation to an accounting period for which it is required or permitted to be used—
- (a) the Statement of Recommended Practice relating to Investment Trust Companies, issued by the Association of Investment Trust Companies in January 2003, as from time to time modified, amended or revised, or
 - (b) any subsequent Statement of Recommended Practice relating to investment trusts, as from time to time modified, amended or revised.”.
- 39 (1) Paragraph 2A (authorised unit trusts) is amended as follows.
- (2) In the heading at the end add “: *capital profits, gains or losses*”.
 - (3) In sub-paragraph (1) omit “, notwithstanding section 84(2)(b) of this Act”.
 - (4) After that sub-paragraph insert—
 - “(1A) For the purposes of this paragraph “capital profits, gains or losses”—
 - (a) in the case of an authorised unit trust that prepares accounts in accordance with UK generally accepted accounting practice, has the meaning given by sub-paragraphs (2) to (4), and
 - (b) in the case of an authorised unit trust that prepares accounts in accordance with international accounting standards, has the meaning given by order made by the Treasury.”.
 - (5) In sub-paragraph (2) for the words “For the purposes of this paragraph” substitute “In the cases mentioned in sub-paragraph (1A)(a)”.
 - (6) In sub-paragraph (5) after “the definition of capital profits, gains or losses” insert “in sub-paragraphs (2) to (4)”.
- 40 (1) Paragraph 2B (open-ended investment companies) is amended as follows.
- (2) In the heading at the end add “: *capital profits, gains or losses*”.
 - (3) In sub-paragraph (1) omit “, notwithstanding section 84(2)(b) of this Act”.
 - (4) After that sub-paragraph insert—
 - “(1A) For the purposes of this paragraph “capital profits, gains or losses”—
 - (a) in the case of a company that prepares accounts in accordance with UK generally accepted accounting practice, has the meaning given by sub-paragraphs (2) to (4), and
 - (b) in the case of a company that prepares accounts in accordance with international accounting standards, has the meaning given by order made by the Treasury.”.
 - (5) In sub-paragraph (2) for the words “For the purposes of this paragraph” substitute “In the cases mentioned in sub-paragraph (1A)(a)”.

- (6) In sub-paragraph (5) after “the definition of capital profits, gains or losses” insert “in sub-paragraphs (2) to (4)”.
- 41 (1) Paragraph 4 (company holdings in unit trusts and offshore funds) is amended as follows.
- (2) For sub-paragraph (3) substitute—
- “(3) The debits and credits to be brought into account for the purposes of this Chapter as respects the company’s relevant holdings must be determined on the basis of fair value accounting.”.
- (3) In sub-paragraph (4) for the words from the beginning to “for the purposes of this Chapter,” substitute “Sub-paragraph (3) shall not be taken, as respects any accounting period.”.
- 42 In Schedule 11 to the Finance Act 1996 (c. 8) (loan relationships: special provision for insurers), in paragraph 1(1A) for “sections 92(1)(f), 93(1)(a) and (b) and 96(1)(b)” substitute “section 96(1)(b).”

Consequential amendments

- 43 In section 440 of the Taxes Act 1988 (insurance companies: transfers of assets etc.), in subsection (2A) (treatment of asset representing loan relationship), for the words from “any authorised accounting method” to “shall be applied” substitute “Chapter 2 of Part 4 of the Finance Act 1996 applies”.
- 44 In section 730A of that Act (treatment of price differential on sale and repurchase of securities), in subsection (6) (treatment of loan relationships)—
- (a) omit paragraph (b) (but not the word “and” following it), and
- (b) in the closing words for “paragraphs (b) and (c)” substitute “paragraph (c)”.
- 45 In Schedule 28A of that Act (change in ownership of investment company), in paragraphs 7(1)(d)(ii) and (e)(ii), 11(1)(a) and (3)(c) and 16(1)(d)(ii) and (e)(ii) for “authorised accruals” substitute “amortised cost”.
- 46 In paragraph 7(3) of Schedule 26 to the Transport Act 2000 (c. 38) (transfers under that Act), for “an authorised accounting method” substitute “a basis of accounting”.

PART 2

DERIVATIVE CONTRACTS

Method of taxation

- 47 (1) In Schedule 26 to the Finance Act 2002 (c. 23) (derivative contracts: method of taxation), paragraph 15 (credits and debits to be brought into account) is amended as follows.
- (2) In sub-paragraph (1) omit “in accordance with an authorised accounting method and”.
- (3) Omit sub-paragraphs (2), (3) and (6).

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- (4) In sub-paragraph (9) for “paragraph 16” substitute “the following provisions of this Schedule”.
- 48 (1) Paragraph 16 of that Schedule (exchange gains and losses arising from derivative contracts) is amended as follows.
- (2) For sub-paragraph (3) substitute—
- “ (3) Sub-paragraph (1) does not apply to an exchange gain or loss of a company to the extent that it—
- (a) arises in relation to a derivative contract whose underlying subject matter consists wholly or partly of currency, or
- (b) results from the translation from one currency to another of the profit or loss of part of the company’s business,
- and is recognised in the company’s statement of recognised gains and losses or statement of changes in equity.
- (3A) Sub-paragraph (1) above does not apply to so much of an exchange gain or loss arising to a company, in relation to a derivative contract whose underlying subject matter consists wholly or partly of currency, as falls within a description prescribed for the purpose in regulations made by the Treasury.”.
- (3) Omit sub-paragraphs (4) to (7).
- (4) In sub-paragraph (8) after “(3)” insert “or (3A)”.
- (5) In sub-paragraph (10) at the end add “and power to make provision subject to an election or to other prescribed conditions”.

Accounting methods

- 49 In the heading to Part 4 of that Schedule for “ACCOUNTING METHODS” substitute “COMPUTATION OF AMOUNTS TO BE BROUGHT INTO ACCOUNT”.
- 50 For paragraphs 17 to 20 of that Schedule (authorised accounting methods and their application) substitute—

“Computation in accordance with generally accepted accounting practice

- 17A (1) Subject to the provisions of this Schedule, the amounts to be brought into account by a company for any period for the purposes of this Schedule are those that, in accordance with generally accepted accounting practice, are recognised in determining the company’s profit or loss for the period.
- (2) If a company does not draw up accounts in accordance with generally accepted accounting practice (“correct accounts”)—
- (a) the provisions of this Schedule apply as if correct accounts had been drawn up, and
- (b) the amounts referred to in this Schedule as being recognised for accounting purposes are those that would have been recognised if correct accounts had been drawn up.

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- (3) If a company draws up accounts that rely to any extent on amounts derived from an earlier period of account for which the company did not draw up correct accounts, the amounts referred to in this Schedule as being recognised for accounting purposes in the later period are those that would have been recognised if correct accounts had been drawn up for the earlier period.
- (4) The provisions of sub-paragraphs (2) and (3) apply where the company does not draw up accounts at all as well as where it draws up accounts that are not correct.

Amounts recognised in determining company's profit or loss

- 17B (1) Any reference in this Schedule to an amount being recognised in determining a company's profit or loss for a period is to an amount being recognised for accounting purposes—
- (a) in the company's profit and loss account,
 - (b) in the company's statement of recognised gains and losses or statement of changes in equity, or
 - (c) in any other statement of items brought into account in computing the company's profits and losses for that period.
- (2) Sub-paragraph (1) does not apply to an amount recognised for accounting purposes by way of correction of a fundamental error.

Power to make further provision by regulations

- 17C (1) The Treasury may by regulations make provision—
- (a) excluding amounts of a prescribed description from paragraph 17B(1);
 - (b) requiring amounts of a prescribed description that do not fall within paragraph 17B (1) (by virtue of regulations under paragraph (a) above or otherwise) to be brought into account in determining a company's profit or loss for a period in prescribed circumstances;
 - (c) as to the manner in which any such amounts are to be brought into account.
- (2) The regulations may (in particular) make provision by reference to the fact that amounts derive from or otherwise relate to amounts brought into account in a prescribed manner in a previous period of account.
- (3) The power to make regulations under this paragraph includes—
- (a) power to make different provision for different cases; and
 - (b) power to make provision subject to an election or to other prescribed conditions.
- (4) Regulations under this paragraph may apply, exclude or modify any of the provisions of this Schedule in relation to cases for which provision is made by the regulations.”.

51 In paragraph 21 (basis of accounting for contracts falling within paragraph 6, 7 or 8), for sub-paragraph (2) substitute—

“(2) Where this paragraph applies the debits and credits to be brought into account for the purposes of this Schedule as respects the derivative contract must be determined on the basis of fair value accounting.”.

Special provision for bad debt etc.

- 52 In the heading to Part 5 of that Schedule (special provision for bad debt etc.) for “BAD DEBT ETC” substitute “RELEASE OF LIABILITY”.
- 53 (1) Paragraph 22 of that Schedule (bad debts etc.) is amended as follows.
- (2) For the heading substitute “*Release of liability under derivative contract*”.
- (3) Omit sub-paragraphs (1) to (4).
- (4) In sub-paragraph (5), omit paragraph (b) and the word “and” preceding it.

Special computational provisions

- 54 In paragraph 22A of that Schedule (deemed assignment of derivative contracts on company ceasing to be resident in UK etc.), omit sub-paragraph (5).
- 55 In paragraph 23 of that Schedule (derivative contracts for unallowable purposes), in sub-paragraphs (2) and (3) omit “given by the authorised accounting method used”.
- 56 (1) Paragraph 25 of that Schedule (debits and credits treated as relating to capital expenditure) is amended as follows.
- (2) In sub-paragraph (1) omit “given by an authorised accounting method”.
- (3) After sub-paragraph (3) add—
- “(4) Where a debit is brought into account by a company in accordance with sub-paragraph (1), no debit shall be brought into account in respect of—
- (a) the writing down of so much of the value of the fixed capital asset or project as is attributable to that debit, or
- (b) so much of any amortisation or depreciation as represents a writing off of the interest component of the asset.”.
- 57 In paragraph 30 of that Schedule (transactions within groups: authorised mark to market basis of accounting)—
- (a) in the heading for “*authorised mark to market basis of accounting*” substitute “*fair value accounting*”;
- (b) in sub-paragraph (1) for “an authorised mark to market basis of accounting” substitute “fair value accounting”.
- 58 In paragraph 31A of that Schedule (amounts imputed under Schedule 28AA to the Taxes Act 1988), in sub-paragraph (2) omit “, notwithstanding the provisions of any authorised accounting method.”.

Collective investment schemes

- 59 (1) Paragraph 32 of that Schedule (authorised unit trusts: capital profits, gains or losses) is amended as follows.
- (2) In sub-paragraph (1) omit “, notwithstanding paragraph 15”.

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- (3) After that sub-paragraph insert—
- “(1A) For the purposes of this paragraph “capital profits, gains or losses”—
- (a) in the case of an authorised unit trust that prepares accounts in accordance with UK generally accepted accounting practice, has the meaning given by sub-paragraphs (2) to (4), and
- (b) in the case of an authorised unit trust that prepares accounts in accordance with international accounting standards, has the meaning given by order made by the Treasury.”.
- (4) In sub-paragraph (2) for the words “For the purposes of this paragraph” substitute “In the cases mentioned in sub-paragraph (1A)(a)”.
- 60 (1) Paragraph 33 of that Schedule (open-ended investment companies: capital profits, gains or losses) is amended as follows.
- (2) In sub-paragraph (1) omit “, notwithstanding paragraph 15”.
- (3) After that sub-paragraph insert—
- “(1A) For the purposes of this paragraph “capital profits, gains or losses”—
- (a) in the case of an open-ended investment company that prepares accounts in accordance with UK generally accepted accounting practice, has the meaning given by sub-paragraphs (2) to (4), and
- (b) in the case of an open-ended investment company that prepares accounts in accordance with international accounting standards, has the meaning given by order made by the Treasury.”.
- (4) In sub-paragraph (2) for the words “For the purposes of this paragraph” substitute “In the cases mentioned in sub-paragraph (1A)(a)”.
- 61 In paragraph 34 of that Schedule (power to amend paragraphs 32 and 33), in sub-paragraph (1) after “the definition of capital profits, gains or losses” insert “in paragraph 32(2) to (4) or 33(2) to (4)”.
- 62 In paragraph 36 of that Schedule (contracts relating to holdings in unit trusts, open-ended investment companies and offshore funds) for sub-paragraph (2) substitute—
- “(2) The Corporation Tax Acts have effect for that period (and any succeeding period in which the relevant contract is a relevant contract of the company) as if the relevant contract were a derivative contract.
- (2A) The debits and credits to be brought into account for the purposes of this Schedule as respects the company’s relevant holdings must be determined on the basis of fair value accounting.”.
- 63 For paragraph 38 of that Schedule (investment trusts and venture capital trusts: capital reserves) substitute—
- “Investment trusts: capital profits, gains or losses*
- 38 (1) Capital profits, gains or losses arising to an investment trust from a creditor relationship must not be brought into account as credits or debits for the purposes of this Schedule.
- (2) For the purposes of this paragraph “capital profits, gains or losses”—

- (a) in the case of an investment trust that prepares accounts in accordance with UK generally accepted accounting practice, has the meaning given by sub-paragraphs (3) and (4), and
 - (b) in the case of an investment trust that prepares accounts in accordance with international accounting standards, has the meaning given by order made by the Treasury.
- (3) In the cases mentioned in sub-paragraph (2)(a) capital profits, gains or losses arising from a creditor relationship in an accounting period are profits, gains or losses that are carried to or sustained by a capital reserve in accordance with the Statement of Recommended Practice.
- (4) For the purposes of this paragraph the Statement of Recommended Practice is, for an accounting period for which it is required or permitted to be used—
- (a) the Statement of Recommended Practice relating to Investment Trust Companies, issued by the Association of Investment Trust Companies in January 2003, as from time to time modified, amended or revised, or
 - (b) any subsequent Statement of Recommended Practice relating to investment trusts, as from time to time modified, amended or revised.

Venture capital trusts: capital profits, gains or losses

- 38A (1) Capital profits, gains or losses arising to a venture capital trust from a creditor relationship must not be brought into account as credits or debits for the purposes of this Schedule.
- (2) For the purposes of this paragraph “capital profits, gains or losses”—
- (a) in the case of a venture capital trust that prepares accounts in accordance with UK generally accepted accounting practice, has the meaning given by sub-paragraphs (3) and (4), and
 - (b) in the case of a venture capital trust that prepares accounts in accordance with international accounting standards, has the meaning given by order made by the Treasury.
- (3) In the cases mentioned in sub-paragraph (2)(a) capital profits, gains or losses arising from a creditor relationship in an accounting period are profits, gains or losses that—
- (a) are carried to or sustained by a capital reserve in accordance with the Statement of Recommended Practice as if the venture capital trust were an investment trust, or
 - (b) would be so carried to or sustained by a capital reserve if the venture capital trust were an investment trust and were using the Statement of Recommended Practice.
- (4) For the purposes of this paragraph the Statement of Recommended Practice is, in relation to an accounting period for which it is required or permitted to be used—
- (a) the Statement of Recommended Practice relating to Investment Trust Companies, issued by the Association of Investment Trust

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Companies in January 2003, as from time to time modified, amended or revised, or

- (b) any subsequent Statement of Recommended Practice relating to investment trusts, as from time to time modified, amended or revised.”.

Miscellaneous

- 64 In paragraph 48 of that Schedule (election to treat contract as two assets), for sub-paragraph (4) substitute—

“(4) The debits and credits to be brought into account for the purposes of Chapter 2 of Part 4 of the Finance Act 1996 as respects a creditor relationship arising under sub-paragraph (2)(a) must be determined on the basis of fair value accounting.”.

- 65 In paragraph 49(4) of that Schedule (partnerships involving companies: provisions for determining credits and debits for company partner), for paragraph (c) substitute—

“(c) to the extent that any exchange gains or losses arising from the contract are recognised in the firm’s statement of recognised gains and losses or statement of changes in equity, the exchange gains or losses shall to that extent be treated as if they had been recognised in the corresponding statement of the company partner.”.

- 66 For paragraph 50 of that Schedule (partnerships involving companies: application of accounting methods) substitute—

“Partnerships involving companies: use of fair value accounting

50 (1) Where the company partner uses fair value accounting in relation to its interest in the firm, the debits and credits to be brought into account under paragraph 49 by that company must be determined on the basis of fair value accounting.

(2) In this paragraph “company partner” and “firm” have the same meaning as in paragraph 49.”.

- 67 After that paragraph insert—

“Adjustment on company changing to international accounting standards

50A (1) This paragraph applies where a company—

(a) prepares accounts for one period (“the earlier period”) in accordance with UK generally accepted accounting practice, and

(b) prepares accounts for the next period (“the later period”) in accordance with international accounting standards,

and the approach in each of those periods accords with the law and practice applicable in relation to that period.

(2) If there is a difference between—

(a) the accounting value of a derivative contract of the company at the end of the earlier period, and

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- (b) the accounting value of that contract at the beginning of the later period,
a corresponding debit or credit (as the case may be) shall be brought into account for the purposes of this Schedule in the later period.
- (3) In sub-paragraph (2) “accounting value” means the carrying value of the contract recognised for accounting purposes.
- (4) Where or to the extent that an adjustment is made under this paragraph, no adjustment under Schedule 22 (computation of profits: adjustment on change of basis) shall be made.”.

Interpretation

- 68 Omit paragraph 52 of that Schedule (meaning of “statutory accounts”).
- 69 In paragraph 54 (1) of that Schedule (interpretation)—
 - (a) omit the definition of “authorised accounting method”, “authorised accruals basis of accounting” and “authorised mark to market basis of accounting”;
 - (b) for the definition of “fair value” substitute—

““fair value”, in relation to a derivative contract of a company, means the amount which, at the time as at which the value falls to be determined, is the amount that the company would obtain from or, as the case may be, would have to pay to an independent person for—

 - (a) the transfer of all the company’s rights under the contract in respect of amounts which at that time are not yet due and payable, and
 - (b) the release of all the company’s liabilities under the contract in respect of amounts which at that time are not yet due and payable;

“fair value accounting” means a basis of accounting under which assets and liabilities are shown in the company’s balance sheet at their fair value;”;
 - (c) omit the definition of “statutory accounts”.

Consequential amendment

- 70 In section 440 of the Taxes Act 1988 (insurance companies: transfers of assets etc.), in subsection (2B) (treatment of derivative contract), for the words from “any authorised accounting method” to “shall be applied” substitute “Schedule 26 to the Finance Act 2002 applies”.

PART 3

INTANGIBLE FIXED ASSETS

Excluded assets: assets in respect of which capital allowances previously made

71 In Part 10 of Schedule 29 to the Finance Act 2002 (c. 23) (excluded assets), after paragraph 73 (rights over tangible assets) insert—

“Assets entirely excluded: assets in respect of which capital allowance previously made

- 73A (1) This Schedule does not apply to an intangible asset of a company in the following circumstances.
- (2) The circumstances are that—
- (a) the asset falls to be treated as an intangible asset in accounts of the company,
 - (b) in a previous period of account the asset fell to be treated as a tangible asset in accounts of the company, and
 - (c) an allowance under Part 2 of the Capital Allowances Act (plant and machinery allowances) was made to the company in respect of the asset on the latter basis.”.

Adjustment on change of accounting policy

72 In Part 13 of that Schedule (supplementary provisions), after paragraph 116 insert—

“Adjustment on change of accounting policy

- 116A (1) This paragraph applies where—
- (a) there is a change of accounting policy in drawing up a company’s accounts from one period of account (the “earlier period”) to the next (the “later period”), and
 - (b) the approach in each of those periods accorded with the law and practice applicable in relation to that period.
- (2) This paragraph applies, in particular, where—
- (a) the company prepares accounts for the earlier period in accordance with UK generally accepted accounting practice and for the later period in accordance with international accounting standards, or
 - (b) the company prepares accounts for the earlier period in accordance with international accounting standards and for the later period in accordance with UK generally accepted accounting practice.
- (3) If there is a difference between—
- (a) the accounting value of an intangible fixed asset of the company at the end of the earlier period, and
 - (b) the accounting value of that asset at the beginning of the later period,

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a corresponding debit or credit (as the case may be) shall be brought into account for tax purposes in the later period.

- (4) The amount of the debit or credit to be brought into account for tax purposes is:

$$\text{Accounting Difference} \times \frac{\text{Tax Value}}{\text{Accounting Value}}$$

where—

Accounting Difference is the amount of the difference specified in sub-paragraph (3);

Tax Value is the tax written down value of the asset at the end of the earlier period; and

Accounting Value is the accounting value of the asset at the end of the earlier period.

- (5) This paragraph does not apply in relation to an intangible fixed asset in respect of which an election has been made under paragraph 10 (election for writing down at fixed-rate).
- (6) This paragraph does not apply to a difference between the accounting value of an intangible fixed asset in different periods of account to the extent that, in respect of that difference, a credit or debit is brought into account for tax purposes under—
- (a) paragraph 12 (reversal of accounting gain),
 - (b) paragraph 15 (gain on revaluation), or
 - (c) paragraph 17 (reversal of accounting loss).
- (7) Where or to the extent that an adjustment is made under this paragraph, no adjustment under Schedule 22 (computation of profits: adjustment on change of basis) shall be made.”.

References to amounts recognised in profit and loss account

- 73 (1) In Part 15 of that Schedule (interpretation) paragraph 134(a) (references to amounts recognised in profit and loss account) is amended as follows.
- (2) After “statement of total recognised gains and losses” insert “, statement of changes in equity”.
- (3) After paragraph (b) insert—
- “other than an amount recognised for accounting purposes by way of correction of a fundamental error.”.

Consequential amendments

- 74 In paragraph 15(4) of that Schedule (credits on revaluation of intangible fixed assets)
- (a) in the definition of “Previous Debits”, after “accounting basis” insert “or paragraph 116A (adjustment on change of accounting policy)”;
 - (b) in the definition of “Previous Credits”, at the end insert “or paragraph 116A (adjustment on change of accounting policy)”.

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- 75 In paragraph 20 (1) of that Schedule (realisation of asset written down for tax purposes), after paragraph (b) insert “, or
(c) under paragraph 116A (adjustment on change of accounting policy).”
- 76 In paragraph 27 (1) of that Schedule (calculation of tax written down value of asset written down on accounting basis)—
(a) in the definition of “Debits”, after “paragraph 9” insert “or paragraph 116A (adjustment on change of accounting policy)”;
(b) in the definition of “Credits”, at the end insert “or paragraph 116A (adjustment on change of accounting policy)”.

PART 4

FOREIGN CURRENCY ACCOUNTING

Main provisions

- 77 For sections 92 to 94AB of the Finance Act 1993 (c. 34) (corporation tax: currency) substitute—

“Corporation tax: currency

92 The basic rule: sterling to be used

- (1) For the purposes of corporation tax the profits of a company for an accounting period must be computed and expressed in sterling.
- (2) The following sections contain further provision as to the application of subsection (1) to certain profits or losses falling to be computed in accordance with generally accepted accounting practice—
section 92A (company operating in sterling and preparing accounts in another currency);
section 92B (company operating in currency other than sterling and preparing accounts in another currency);
section 92C (company preparing accounts in currency other than sterling).

92A Company operating in sterling and preparing accounts in another currency

- (1) This section applies if, for a period of account, in accordance with generally accepted accounting practice, a company resident in the United Kingdom—
 - (a) prepares its accounts in a currency other than sterling, and
 - (b) in those accounts identifies sterling as its functional currency.
- (2) Profits or losses of the company for the period that fall to be computed in accordance with generally accepted accounting practice for corporation tax purposes must be computed in sterling as if the company prepared its accounts in sterling.

92B Company operating in currency other than sterling and preparing accounts in another currency

- (1) This section applies if, for a period of account, in accordance with generally accepted accounting practice—
 - (a) a company resident in the United Kingdom prepares its accounts in one currency,
 - (b) in those accounts it identifies another currency as its functional currency, and
 - (c) that currency is not sterling.
- (2) Profits or losses of the company for the period that fall to be computed in accordance with generally accepted accounting practice for corporation tax purposes must be computed in sterling by—
 - (a) computing those profits or losses in the functional currency as if the company prepared its accounts in that currency, and
 - (b) taking the sterling equivalent of those profits or losses.
- (3) Where this section applies, it shall be assumed that any sterling amount mentioned in the Corporation Tax Acts is its equivalent expressed in the functional currency of the company.

92C Company preparing accounts in currency other than sterling

- (1) This section applies in relation to a company resident in the United Kingdom if, for a period of account—
 - (a) the company prepares its accounts in a currency other than sterling (the “accounts currency”), and
 - (b) neither section 92A nor section 92B applies.
- (2) This section also applies in relation to a company that is not resident in the United Kingdom if, for a period of account, the company prepares its return of accounts in a currency other than sterling (the “accounts currency”).
- (3) Profits or losses of the company for the period that fall to be computed in accordance with generally accepted accounting practice for corporation tax purposes must be computed in sterling by—
 - (a) computing those profits or losses in the accounts currency, and
 - (b) taking the sterling equivalent of those profits or losses.
- (4) Where this section applies, it shall be assumed that any sterling amount mentioned in the Corporation Tax Acts is its equivalent expressed in the accounts currency of the company.

92D Translating amounts into equivalent in different currency

- (1) Where, for the purposes of computing the profits or losses of a company for an accounting period, an amount is required by section 92B or 92C to be translated—
 - (a) into its sterling equivalent, or
 - (b) into its equivalent expressed in the functional currency or the accounts currency of the company,

the translation must be made by reference to the appropriate exchange rate.

- (2) The “appropriate exchange rate” is—
- (a) the average exchange rate for the current accounting period, or
 - (b) an appropriate spot rate of exchange for the transaction in question.

92E Meaning of “accounts”, “return of accounts” and “functional currency”

- (1) References in sections 92A to 92C to the “accounts” of a company resident in the United Kingdom are to—
- (a) the annual accounts of the company required by Part 7 of the Companies Act 1985 or Part 8 of the Companies (Northern Ireland) Order 1986; or
 - (b) if the company is not required to prepare such accounts, the accounts which it is required to keep under the law of the country or territory under whose laws the company is incorporated; or
 - (c) if the company is not so required to keep accounts, such of its accounts as most closely correspond to accounts which it would have been required to prepare if the provisions of Part 7 of the Companies Act 1985 applied to it.
- (2) The reference in section 92C to the “return of accounts” of a company not resident in the United Kingdom is to a return of such accounts of its permanent establishment in the United Kingdom as may be required by the Inland Revenue under paragraph 3 of Schedule 18 to the Finance Act 1998 (company tax returns).
- (3) References in sections 92A, 92B and 92D to a company’s “functional currency” are to the currency of the primary economic environment in which the company operates.”.

Consequential amendments

- 78 (1) Section 730BB of the Taxes Act 1988 (exchange gains and losses on sale and repurchase of securities) is amended as follows.
- (2) In subsection (2)(c) for the words from “section 93 of the Finance Act 1993” to “sterling)” substitute “section 92B or 92C of the Finance Act 1993 (company preparing accounts or operating in currency other than sterling)”.
- (3) In subsection (3)—
- (a) in paragraph (a) for “section 93 of the Finance Act 1993” substitute “section 92B or 92C of the Finance Act 1993 (company preparing accounts or operating in currency other than sterling)”;
 - (b) in paragraph (b) for the words from “relevant foreign currency” to “the company” substitute “relevant currency”;
 - (c) in paragraph (c)(i) and (ii) for “relevant foreign currency” substitute “relevant currency”.
- (4) After subsection (3) insert—
- “(3A) In subsection (3), references to the relevant currency are—

- (a) in cases in which section 92B of the Finance Act 1993 applies, to the functional currency (within the meaning of that section), and
- (b) in cases in which section 92C of the Finance Act 1993 applies, to the accounts currency (within the meaning of that section).”

(5) Omit subsection (12).